

CITY OF WATERTOWN, NEW YORK

=====

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2009

CITY OF WATERTOWN, NEW YORK
TABLE OF CONTENTS
JUNE 30, 2009

	PAGES
Independent Auditor's Report	1-2
Required Supplementary Information: Management's Discussion and Analysis	3-16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Fund	19
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Governmental Funds	
Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Net Assets - Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	27
Notes to Financial Statements	28-54
Required Supplementary Information:	
SS-1 Budgetary Comparison Schedule - General Fund	55
SS-2 Schedule of Expenditures of Federal Awards	56
Notes to Schedule of Expenditures of Federal Awards	57
SS-3 Schedule of Funding Progress for "The Plan"	58
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .	59-60
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	61-62
Schedule of Findings and Questioned Costs	63-64
Summary Schedule of Prior Audit Findings	64

NYSDOT State Single Audit

Report on Compliance and Controls Over State Transportation Assistance Expended Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65-67
Schedule of State Transportation Assistance Expended	68
Notes to Schedule of State Transportation Assistance Expended	69
Schedule of Findings and Questioned Costs for State Transportation Assistance Expended	70

POULSEN & PODVIN, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

To the Senior Management, Mayor and
Members of the City Council of
the City of Watertown, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watertown, New York's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis (pages 3-16), budgetary comparison information (page 55) and schedule of funding progress for "the plan" (page 58) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Watertown, New York. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

As management of the City of Watertown (the "City") we offer this overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2009. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets of the City of Watertown exceeded its liabilities at June 30, 2009 by \$93,732,107. Of this amount unrestricted net assets of \$13,563,945 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$4,472,854 in fiscal year 2008-09, \$3,488,346 in governmental activities and \$984,508 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$16,019,502.
- General fund revenues of \$38,596,779 on a budgetary basis exceeded budgeted revenues by \$856,314 or 2.27% while budgetary basis expenditures finished \$2,357,120 lower than budgeted expenditures. These results negated the use of \$145,000 in appropriated fund balance budgeted in the 2008-09 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,780,533 or 32.32% of total general fund expenditures.
- The City issued \$3,220,000 in serial bonds dated February 11, 2009 maturing September 15, 2018 at interest rates ranging from 2.50% through 3.25% (priced to yield 2.81%) to provide financing for various capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (interperiod or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements, which further explains and supports the information presented in these statements.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Watertown's finances, in a manner similar to a private-sector business. All of the activities of the City, except of a fiduciary nature, are included in these statements. The government-wide statements provide short-term and long-term information about the City's financial status as a whole.

The Statement of Net Assets presents information on all of the City's assets (including capital assets) and liabilities (including long-term debt), with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, other indicators, including non-financial indicators like the City's property tax base, bond ratings, the condition of its infrastructure, and the County's sales tax base, should also be considered.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. Since full accrual accounting is used for the government-wide financial statements, all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and interest payments on debt). This statement also focuses on both the gross and net costs of the various functions of the City, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions are self-supporting and/or dependent on general taxes and other revenues for support.

Both of the government-wide financial statements distinguish functions of the City of Watertown that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include most of the City's basic services such as the City's fire and police services, public works, parks and recreation, the bus system, library and general government support. Sales tax, property taxes, and State Aid finance most of these services. The business-type activities of the City include the water and sewer utilities. User fees support these activities.

The government-wide financial statements include not only the City of Watertown itself (known as the primary government), but also the Watertown Empire Zone as a blended component unit as it is not a legally separate entity and the Roswell P. Flower Memorial Library Board of Trustees as a discretely presented component unit.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. These statements provide more detailed information about the City's most significant funds (major funds) and not the City as a whole. All of the funds of the City can be divided into three categories: (1) governmental funds, (2) proprietary funds and (3) fiduciary funds.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term sources and uses of available resources. These funds are reported using the modified accrual method of accounting that measures cash and all other financial assets that can be readily converted to cash.

The governmental funds statements provide a more detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because the focus (current financial resources) of governmental funds is narrower than that of the government-wide financial statements (total economic resources), it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Watertown maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balance for the general and capital projects funds, which are considered to be the City's major governmental funds. Data for the other governmental funds is combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, a Budgetary Comparison Schedule for the general fund has been provided as Required Supplemental Information following the Basic Financial Statements.

Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Watertown has two proprietary or enterprise funds. The City's proprietary funds are the water and sewer funds. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, both of which are considered to be major funds of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. Therefore, these assets are not reflected in the government-wide financial statements. These funds are reported using the accrual accounting method.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. This section includes the budgetary comparison schedule for the general fund.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2009, the City's assets exceeded liabilities by \$93,732,107 compared to \$89,259,253 at June 30, 2008. By far the largest portion of the City's net assets (84.32%) reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$1,134,528 or 1.21% of the net assets represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone, the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund and a Capital Reserve Fund. The unrestricted net assets, \$13,563,945 compared to \$12,692,832 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

City of Watertown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Current and other assets	\$21,765,183	\$23,363,970	\$4,619,704	\$4,990,775	\$26,384,887	\$28,354,745
Capital Assets	<u>76,481,851</u>	<u>74,241,192</u>	<u>33,960,086</u>	<u>33,757,536</u>	<u>110,441,937</u>	<u>107,998,728</u>
Total Assets	<u>\$98,247,034</u>	<u>\$97,605,162</u>	<u>\$38,579,790</u>	<u>\$38,748,311</u>	<u>\$136,826,824</u>	<u>\$136,353,473</u>
Long-term liabilities outstanding	\$26,271,572	\$25,123,392	\$10,230,950	\$10,434,432	\$36,502,522	\$35,557,824
Other liabilities	<u>5,983,140</u>	<u>9,977,794</u>	<u>609,055</u>	<u>1,558,602</u>	<u>6,592,195</u>	<u>11,536,396</u>
Total liabilities	<u>\$32,254,712</u>	<u>\$35,101,186</u>	<u>\$10,840,005</u>	<u>\$11,993,034</u>	<u>\$43,094,717</u>	<u>\$47,094,220</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Net Assets:

Invested in Capital

Assets, net of related

debt	\$53,419,622	\$50,453,566	\$25,614,012	\$24,939,446	\$79,033,634	\$75,393,012
Restricted	1,016,454	1,096,637	118,074	76,772	1,134,528	1,173,409
Unrestricted	<u>11,556,246</u>	<u>10,953,773</u>	<u>2,007,699</u>	<u>1,739,059</u>	<u>13,563,945</u>	<u>12,692,832</u>
Total Net Assets	<u>\$65,992,322</u>	<u>\$62,503,976</u>	<u>\$27,739,785</u>	<u>\$26,755,277</u>	<u>\$93,732,107</u>	<u>\$89,259,253</u>

As of June 30, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

The following table provides a summary of the City's operations for the year ended June 30, 2009.

City of Watertown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Revenues:						
Program Revenues:						
Charges for services	\$6,505,983	\$6,285,330	\$9,061,726	\$8,547,017	\$15,567,709	\$14,832,347
Operating grants and contributions	1,754,290	1,084,835	22,221	-	1,776,511	1,084,835
Capital grants and contributions	4,018,797	3,303,897	278,961	1,040,593	4,297,758	4,344,490
General revenues:						
Property taxes	9,618,931	7,447,874	-	-	9,618,931	7,447,874
Sales tax	14,466,732	15,194,502	-	-	14,466,732	15,194,502
Utilities gross receipts tax	376,670	447,896	-	-	376,670	447,896
Franchise tax	406,570	293,733	-	-	406,570	293,733
Mortgage tax	418,469	502,944	-	-	418,469	502,944
Other taxes	214,197	180,798	-	-	214,197	180,798
Grants and Entitlements not restricted to specific programs	5,090,175	4,757,174	-	-	5,090,175	4,757,174
Investment earnings	<u>344,943</u>	<u>622,582</u>	<u>54,332</u>	<u>95,243</u>	<u>399,275</u>	<u>717,825</u>
Total revenues	<u>\$43,215,757</u>	<u>\$40,121,565</u>	<u>\$9,417,240</u>	<u>\$9,682,853</u>	<u>\$52,632,997</u>	<u>\$49,804,418</u>
Expenses:						
General government support	\$11,952,934	\$11,366,404	-	-	\$11,952,934	\$11,366,404
Hydroelectric production	462,321	510,184	-	-	462,321	510,184
Fire	7,503,676	7,185,071	-	-	7,503,676	7,185,071
Police	6,539,319	6,455,049	-	-	6,539,319	6,455,049
Other Public Safety	391,839	440,644	-	-	391,839	440,644
Public Works	6,232,815	5,672,779	-	-	6,232,815	5,672,779

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Bus	913,945	940,754	-	-	913,945	940,754
Watertown Empire Zone	26,739	41,444	-	-	26,739	41,444
Other Economic Assistance	79,088	93,633	-	-	79,088	93,633
Library	945,702	785,948	-	-	945,702	785,948
Other Culture and Recreation	1,641,441	1,533,931	-	-	1,641,441	1,533,931
Refuse and Recycling	799,221	747,195	-	-	799,221	747,195
Other Home and Community Services	1,060,959	779,482	-	-	1,060,959	779,482
Interest on Debt Service	1,174,244	1,275,583	-	-	1,174,244	1,275,583
Water	-	-	4,296,618	4,054,062	4,296,618	4,054,062
Sewer	-	-	4,139,282	4,003,241	4,139,282	4,003,241
Total Expenses	<u>\$39,724,243</u>	<u>\$37,828,101</u>	<u>\$8,435,900</u>	<u>\$8,057,303</u>	<u>\$48,160,143</u>	<u>\$45,885,404</u>
Excess of Revenues over Expenses	3,491,514	2,293,464	981,340	1,625,550	4,472,854	3,919,014
Transfers	<u>(3,168)</u>	<u>(3,705)</u>	<u>3,168</u>	<u>3,705</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	3,488,346	2,289,759	984,508	1,629,255	4,472,854	3,919,014
Net Assets - Beginning	<u>62,503,976</u>	<u>60,214,217</u>	<u>26,755,277</u>	<u>25,126,022</u>	<u>89,259,253</u>	<u>85,340,239</u>
Net Assets - Ending	<u>\$65,992,322</u>	<u>\$62,503,976</u>	<u>\$27,739,785</u>	<u>\$25,755,277</u>	<u>\$93,732,107</u>	<u>\$89,259,253</u>

CITY OF WATERTOWN, NEW YORK

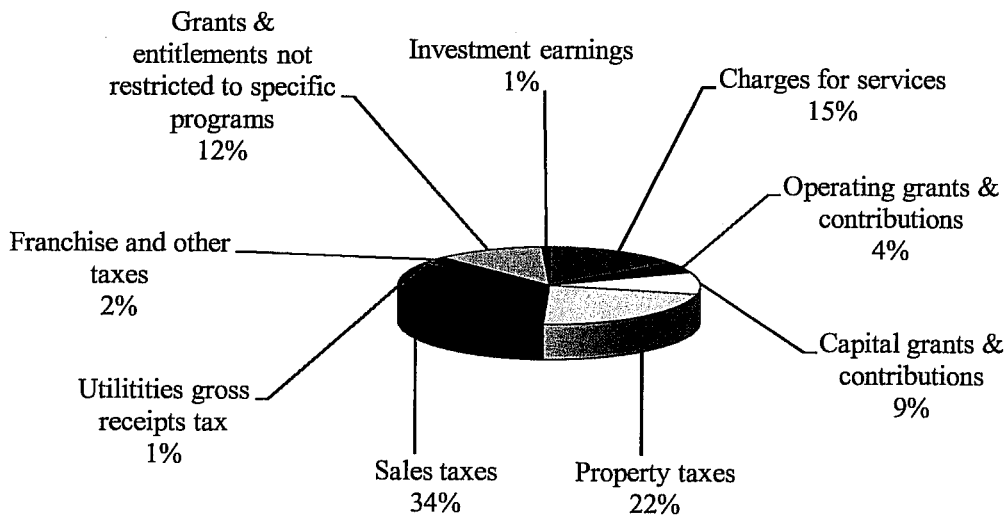
Management's Discussion and Analysis

June 30, 2009

Governmental activities. Governmental activities increased the City's net assets by \$3,488,346 compared to an increase of \$2,289,759 last year accounting for 78% of the total growth in the net assets. Key elements of the increase are as follows:

- The City received \$2,270,641 for the last payment from the section 801 properties payment-in-lieu-of-taxes agreement.
- Sales tax revenue totaled \$14,466,732, a decrease of \$727,770 or (4.79%) compared to fiscal year ended June 30, 2008. Sales tax revenue represented 33% of the governmental activities' revenue in FY 08/09 compared to 38% in FY 07/08.
- Per the New York State 2008-09 Budget, the City received a 7% increase of \$333,001 in State Aid revenue for a total of \$5,090,175.
- The City received \$3,828,226 in Federal and State Aid for various capital projects. Some of the major projects include the State Street reconstruction (\$450,473), the Downtown Streetscape Enhancement project (\$1,838,142), the Consolidated Local Street and Highway Improvement Program for various streets (\$628,679), the Gaffney Drive reconstruction (\$259,059), the Sewalls Island environmental rehabilitation (\$309,708), the Black River Park project (\$80,850) and the Hole Brothers shoreline improvements project (\$72,384).

Governmental Activities - Revenue by Source



CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

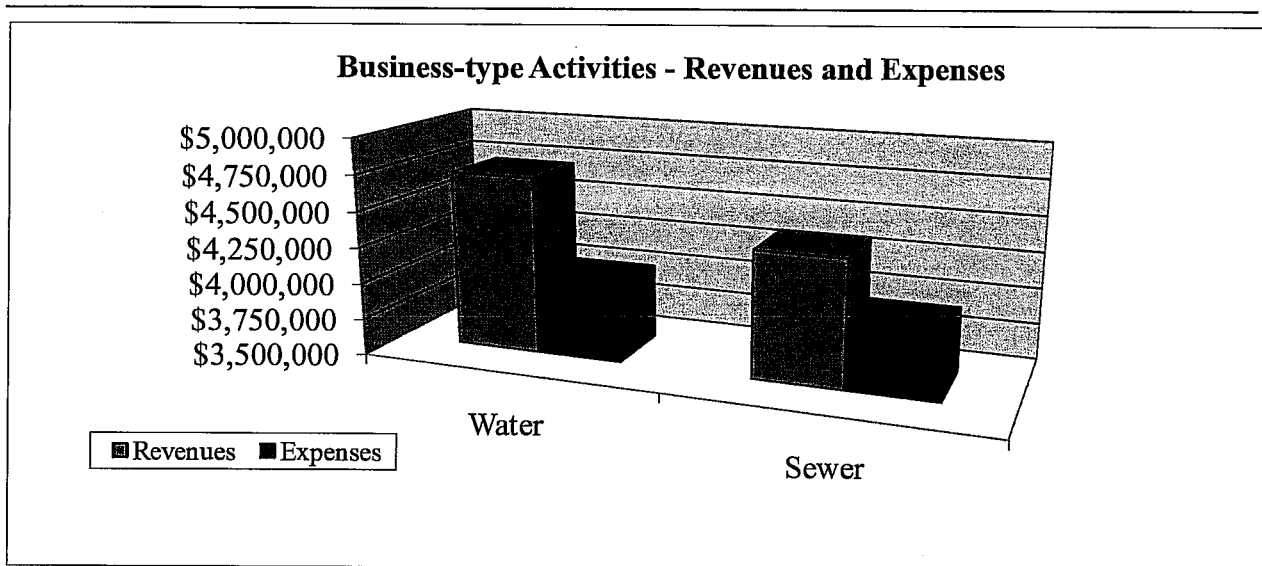
Business-type activities. Business-type activities increased the City's net assets by \$984,508 compared to \$1,629,255 last year. Key elements in this increase are as follows:

- Water operating revenues increased slightly by \$7,147 or 0.15% to \$4,719,853 while operating expenses increased by \$272,478 or 7.27% to \$4,022,205. Sewer operating revenues increased by \$529,783 or 13.82% to \$4,364,094 and operating expenses increased by \$126,422 or 3.31% to \$3,945,631.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts. In the current fiscal year the revenue derived from this agreement was \$688,420 or 14.63% of total water operating revenues compared to 17.02% in the prior year. Revenues from this agreement decreased by \$113,676 or 14.17% over last year's total of \$802,096. Most of this decrease is likely due to Fort Drum's water supply wells being reactivated after being temporarily out of service for most of the prior year.
- The City also has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$1,040,103 or 23.88% of total sewer operating revenues. Revenues from this agreement increased by \$110,476 or 11.88% over last year's total of \$929,627. The City Council approved two twenty-year agreements retroactive to April 1, 2009 with the Development Authority of the North Country to continue providing sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City's Water Pollution Control Plant.
- The City received \$299,913 in Federal and State Aid for various capital projects. The major projects include the State Street reconstruction (\$46,213) and the Downtown Streetscape Enhancement project (\$231,479).

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009



Financial Analysis of the Government's Funds

The focus of the City of Watertown's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2009 the City's governmental funds reported combined ending fund balances of \$16,019,502, an increase of \$2,359,146 in comparison with the prior year. The increase is most attributable to a \$1,243,378 increase in the fund balance of the City's self-funded health insurance fund due to less than anticipated claims. Excluding the capital projects fund, the City's governmental funds have an unreserved fund balance of \$11,840,857. Of the unreserved fund balance, \$1,310,271 has been designated by the City Council for subsequent year's expenditures leaving an unreserved undesignated fund balance of \$10,530,585. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate \$1,171,090 of contracts and purchase orders of the prior period (2) to pay \$175,657 of debt service (3) to pay \$1,008,644 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$1,016,453.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,780,533 compared to \$9,620,817 in 2007-08, while the total general fund balance equaled \$13,637,070 compared to \$11,420,112 in the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures and other financing uses. Unreserved fund balance represents 32.32% of total general fund expenditures and other financing uses compared to 25.59% last year, while total fund balance represents 37.42% of that same amount compared to 30.38% in the prior year.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

During the current fiscal year, the fund balance of the City's general fund increased by \$2,151,477 compared to last year's decrease of \$1,368,701. The less than anticipated expenditures in the City's self-funded health insurance plan accounted for \$1,243,378 of the increase.

Capital projects fund. The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$1,769,517 compared to \$1,467,300 in the previous year. Within this amount was \$962,715 of encumbrances for construction contracts compared to \$5,249,075 in the prior year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the fiscal year of the water fund were \$1,143,142 compared to \$1,334,510 in fiscal year 2007-08. The water fund had an increase in net assets in the amount of \$672,566 compared to \$1,474,178 in the previous year.

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$864,557 compared to \$404,549 in the prior year. The sewer fund had an increase in net assets in the amount of \$311,942 compared to \$155,077 in fiscal year 2007-08. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The general fund budget was re-adopted during the fiscal year to react to the downturn in national and state-wide economic conditions. The re-adopted budget lowered revenues by \$1,226,862 in part by decreasing the expected sales tax revenue by \$1,501,862 and increasing sale of excess hydro-electric power by \$200,000. Expenditures were decreased by \$540,788 in part by increasing the appropriation for road salt by \$250,000 and decreasing the budget for retirement expenses by \$175,000, transfer to the capital projects fund by \$128,000 and fuel costs by \$90,000. Other budget amendments between departmental expenditure accounts also did occur.

General fund revenues of \$38,596,779 on a budgetary basis exceeded final budgeted revenues of \$37,740,465 by \$856,314 or 2.27% while budgetary basis expenditures of \$36,445,302 were \$2,357,120 or 6.07% lower than the final budgeted expenditures of \$38,802,422. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenues being better than anticipated with the re-adopted budget (\$218,594), franchise fees (\$56,570), building permits (\$64,721), State transportation assistance for the bus system (\$113,395), occupancy tax revenues (\$64,197), real property tax reserves (\$115,811) and insurance recoveries on large self-insurance claims (\$274,680). Revenues that did not meet budgetary expectations included the utilities gross receipts tax (\$83,330) and the sale of surplus hydro-power (\$194,674). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$128,000) and planning department projects that did not occur as planned such as brownfield projects (\$199,200). These combined

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

results negated the use of \$145,000 in appropriated fund balance that was budgeted in the 2008-09 general fund budget.

Capital Assets and Debt Administration

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2009, amounts to \$79,033,634. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>
Land	\$2,952,170	\$2,952,170	\$ -	\$ -	\$2,952,170	\$2,952,170
Construction in Progress	1,087,948	14,189,169	238,253	766,818	1,326,201	14,955,987
Land Improvements	2,612,915	2,122,148	19,876	32,404	2,632,791	2,154,552
Building and Improvements	20,552,456	21,168,761	14,483,441	15,023,842	35,035,897	36,192,603
Infrastructure	43,478,015	27,730,675	15,677,742	14,202,321	59,155,757	41,932,996
Machinery and Equipment	3,256,429	3,224,652	3,379,189	3,606,576	6,635,618	6,831,228
Vehicles	<u>2,541,918</u>	<u>2,853,617</u>	<u>161,585</u>	<u>125,575</u>	<u>2,703,503</u>	<u>2,979,192</u>
Total Net Assets	<u>\$76,481,851</u>	<u>\$74,241,192</u>	<u>\$33,960,086</u>	<u>\$33,757,536</u>	<u>\$110,441,937</u>	<u>\$107,998,728</u>

Major capital asset events during the current fiscal year included the following projects:

- Reconstruction of State Street, which began in FY 2005-06, was completed. The water and sanitary portions of the project were completed in FY 2007-08 at a cost of \$3,745,125. Federal and New York State reimbursements for the entire project totaled over \$9.9 million and paid for approximately 93% of the project's \$13.5 million cost excluding the cost of betterments that are estimated at \$2.8 million.
- Construction work for the Downtown Streetscape Enhancement Project, which began in FY 2005-06, was completed. The project included reconstructing Public Square streets, replacing water and storm sewer lines, replacing sidewalks, and installing many landscaping enhancements. Federal and New York State reimbursements for the entire project totaled nearly \$4.8 million and paid for approximately 68% of the project's \$7.0 million cost.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

- Completion of the Black River Parks Development Project at a cost of \$297,331 created additional recreational opportunities along the Black River through the creation of new riverfront park areas and trails along with improved access to an existing park. New York State reimbursements for this project totaled \$125,000.
- Completion of the Hole Brothers Shoreline Improvements Project at a cost of \$298,768 provided upgraded boater and spectator access, a stepped trail to the shoreline and riverbank stabilization. New York State reimbursements for this project totaled nearly \$100,000, the Black River Fund donated \$80,000 and over \$20,000 was transferred from the Tourism Fund.
- Replacement of variable frequency motor drives at the Water Filtration Plant was completed at a cost of \$249,772.
- Acquisition and construction of Gaffney Drive was completed by the City Department of Public Works at a cost of \$259,059 which was funded through a New York State grant of \$200,000 along with the balance from the New York State Consolidated Local Street and Highway Improvement Program.
- Vehicle and equipment purchases in the amount of \$476,433 which items such as a fire truck rehabilitation (\$64,392), para-transit bus (\$58,367), front-end loader (\$109,596), and police vehicles (\$104,666).
- Reconstruction of Ten Eyck Street was completed in FY 2008-09. The nearly \$2.0 million project included reconstructing the streets, sidewalks, water main, and storm and sanitary sewers.

Additional information on the City's capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$32,972,400. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>
General obligation bonds	\$22,960,609	\$23,650,231	\$10,011,791	\$10,353,369	\$32,972,400	\$34,003,600
Other loans	<u>139,565</u>	<u>184,825</u>	<u>5,785</u>	<u>7,661</u>	<u>145,350</u>	<u>192,486</u>
	<u>\$23,100,174</u>	<u>\$23,835,056</u>	<u>\$10,017,576</u>	<u>\$10,361,030</u>	<u>\$33,117,750</u>	<u>\$34,196,086</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

The City of Watertown maintains an A3 rating from Moody's Investor Services.

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2009, the City's debt limit was \$57,176,623 with total net indebtedness of \$14,933,594, thus exhausting 26.12% of the City's debt limit.

The City issued \$3,220,000 in serial bonds dated February 11, 2009 maturing September 15, 2018 at interest rates ranging from 2.50% to 3.25% (priced to yield 2.81%) to provide financing for various capital projects.

Additional information on the City's capital debt can be found in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2009-10 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2009 were 8.3% for the City of Watertown, 8.3% for Jefferson County, 8.6% for New York State and 9.5% for the United States. The unemployment rates in June 2008 were 5.8% for the City of Watertown, 5.8% for Jefferson County, 5.1% for New York State and 5.5% for the United States.

Factors considered during the preparation of the FY 2009-10 budget included the national recession, the potential effects to our area from the American Recovery and Reinvestment Act, continued sales tax volatility, falling interest rates, rising unemployment and uncertainties regarding State Aid. With the continued uncertainties in Afghanistan and Iraq, as has been the case over the last several years, it was difficult to predict how many of the 18,681 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. Based upon many of the aforementioned factors sales tax revenue was projected to decrease significantly by \$995,000 from the FY 2008-09 budgeted level.

Like most local governments, the City's 2009-10 budget was impacted by continued high costs for retirement benefits and health insurance costs. The contribution to the Employees' Retirement System will range from 7.0% to 9.3% of salaries while the contribution the Police and Fire Retirement System will range from 13.9% to 14.3% of salaries. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Accordingly retirement rates are likely to increase by 50% in FY 2010-11 and over the next five years could increase to as much as 30% of payroll for Police and Fire employees and 20% of payroll for all other employees. Appropriations in the self-insurance fund increased \$561,900 or 7.71% resulting in a 5.3% increase to the premium rate.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

The City saw an increase of \$7,818,748 or 0.80% in taxable assessed value which does include an approximate \$7,123,600 assessment reduction to property owned by MGNH. The residential tax burden has increased slightly to 60.97% from 60.72% last year. The average assessment for a single-family home in Watertown increased slightly to \$104,285 from \$103,455 in FY 2008-09.

The City was able to recognize a decrease in FY 2009-10 General Fund operating costs of \$1,493,662 or 3.97% to \$36,095,744. The City appropriated \$1,521,000 of fund balance, an increase of \$1,376,000 over FY 2008-09. The significant reason for the increase in appropriated fund balance was that FY 2008-09 included the receipt of approximately \$2,270,000 for the final payment due related to the 801 properties' PILOT agreement. The sales tax revenue budget was decreased to \$14,755,000 which represented an decrease of \$995,000 or 6.3% over the sales tax budget for FY 2008-09. The State Aid revenue budget was kept at \$5,090,177 based on New York State's FY 2009-10 budget. The increase in the real property tax levy of \$226,435 or 3.18% and the increase in taxable assessed values resulted in a 2.27% increase to the property tax rate.

Appropriations for the Water Fund decreased \$281,921 or 5.60%. The Water Fund held the water rates constant at the FY 2008-09 levels and appropriated \$184,843 of fund balance to balance the 2009-10 budget. The Sewer Fund appropriations increased slightly by \$36,477 or 0.88%. The Sewer Fund was able to hold the FY 2009-10 sewer rates constant at the FY 2008-09 levels and projects to generate a surplus of \$57,686.

Requests for Information

The financial report is designed to provide a general overview of the City of Watertown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City Comptroller, City of Watertown, Municipal Building, 245 Washington Street, Watertown, New York 13601.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted cash and cash equivalents	\$ 12,043,033	\$ 809,868	\$ 12,852,901	\$ 101,271
Restricted cash and cash equivalents	3,025,219	1,888,619	4,913,838	233,104
Receivables (net of allowance for uncollectibles):				
Accounts	1,961,976	1,603,899	3,565,875	-
Taxes	56,068	-	56,068	-
Interest	2,228	891	3,119	-
Other receivables	-	-	-	500
Due from other governments	1,698,144	285,127	1,983,271	-
State and federal aid receivables	2,758,840	119,437	2,878,277	-
Prepaid expenses	130,414	1,124	131,538	386
Internal balances	89,261	(89,261)	0	-
	<u>21,765,183</u>	<u>4,619,704</u>	<u>26,384,887</u>	<u>335,261</u>
Capital Assets:				
Non-depreciable	4,040,118	238,253	4,278,371	10,208
Depreciable, net	72,441,733	33,721,833	106,163,566	52,242
Total capital assets	<u>76,481,851</u>	<u>33,960,086</u>	<u>110,441,937</u>	<u>62,450</u>
Total Assets	\$ 98,247,034	\$ 38,579,790	\$ 136,826,824	\$ 397,711
LIABILITIES				
Accounts payable	\$ 1,998,631	\$ 224,477	\$ 2,223,108	\$ 1,157
Accrued interest payable	237,459	110,780	348,239	-
Accrued liabilities	455,408	71,150	526,558	-
Retainage payable	137,930	43,860	181,790	-
Compensated absences	638,016	107,615	745,631	-
Workers compensation liability	525,137	92,922	618,059	-
Accrued post employment benefits	2,122,453	154,508	2,276,961	-
Other liabilities	14,621	-	14,621	5,317
Due to other governments	647,578	844	648,422	-
Due to retirement system	443,640	50,329	493,969	-
Deferred revenue	1,409,857	-	1,409,857	-
Bond anticipation note	-	-	-	-
Other long-term debt	701,317	5,785	707,102	-
Serial bonds	22,960,609	10,011,791	32,972,400	-
Less: deferred amount on advance refunding	(37,944)	(34,056)	(72,000)	-
Total Liabilities	32,254,712	10,840,005	43,094,717	6,474
NET ASSETS				
Investment in capital assets, net of related debt	53,419,622	25,614,012	79,033,634	-
Restricted for:				
Economic development and assistance	279,865	-	279,865	-
Community development	79,085	-	79,085	-
Capital projects	657,504	118,074	775,578	234,785
Unrestricted	11,556,246	2,007,699	13,563,945	156,452
Total Net Assets	65,992,322	27,739,785	93,732,107	391,237
Total Liabilities and Net Assets	\$ 98,247,034	\$ 38,579,790	\$ 136,826,824	\$ 397,711

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
FUNCTIONS/PROGRAMS							
Governmental Activities:							The Trustees of the Roswell P. Flower Memorial Library
General government support:							
Hydroelectric production	\$ 11,952,934	\$ 2,342,002	\$ 20,544	\$ (9,473,696)	\$ -	\$ (9,473,696)	\$ -
Public safety:	462,321	2,805,326	-	2,343,005	-	2,343,005	-
Fire	7,503,676	-	-	(7,503,676)	-	(7,503,676)	-
Police	6,539,319	205,071	-	(6,201,096)	-	(6,201,096)	-
Other public safety	391,839	-	-	(275,393)	-	(275,393)	-
Public Works	6,232,815	15,070	3,294,379	(2,833,829)	-	(2,833,829)	-
Transportation:							
Bus	913,945	437,220	52,530	(301,094)	-	(301,094)	-
Economic opportunity and development:							
Other economic assistance	79,088	-	-	(79,088)	-	(79,088)	-
Empire Zone	26,739	19,362	-	(7,377)	-	(7,377)	-
Culture and recreation:							
Library	945,702	17,200	13,767	(864,811)	-	(864,811)	-
Other culture and recreation	1,641,441	189,464	327,869	(1,124,108)	-	(1,124,108)	-
Home and community services:							
Refuse and recycle	799,221	670,300	-	(128,921)	-	(128,921)	-
Other home and community services	1,060,959	19,455	309,708	179,155	-	179,155	-
Interest on debt	1,174,244	-	-	(1,174,244)	-	(1,174,244)	-
Total Governmental Activities	39,724,243	1,754,290	4,018,797	(27,445,173)	-	(27,445,173)	-
Business-Type Activities:							
Water	4,296,618	4,706,465	232,223	-	655,458	655,458	-
Sewer	4,139,282	4,355,261	46,738	-	271,550	271,550	-
Total Business-Type Activities	8,435,900	9,061,726	278,961	-	927,008	927,008	-
Total Primary Government	\$ 48,160,143	\$ 15,567,709	\$ 4,297,758	(27,445,173)	927,008	(26,518,165)	-
Component Unit:							
The Trustees of the R.P. Flower Memorial Library	96,387	-	14,202	-	-	-	(32,808)
Total Component Unit	\$ 96,387	\$ -	\$ 14,202	-	-	-	(32,808)
Net Assets brought forward				(27,445,173)	927,008	(26,518,165)	(32,808)
GENERAL REVENUES							
Property taxes				9,618,931	-	9,618,931	-
Sales taxes				14,466,732	-	14,466,732	-
Utilities gross receipts tax				376,670	-	376,670	-
Franchise tax				406,570	-	406,570	-
Hotel occupancy tax				214,197	-	214,197	-
Mortgage tax				418,469	-	418,469	-
Grants and entitlements not restricted to specific programs				5,090,175	-	5,090,175	-
Investment earnings				344,943	54,332	399,275	4,514
Total General Revenues				30,936,687	54,332	30,991,019	4,514
Transfers				(3,168)	3,168	-	-
Change in Net Assets				3,488,346	984,508	4,472,854	(28,294)
Total Net Assets - Beginning of year				62,503,976	26,755,277	89,259,253	419,531
Total Net Assets - End of year				\$ 65,992,322	\$ 27,739,785	\$ 93,732,107	\$ 391,237

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted cash and cash equivalents	\$ 11,442,795	\$ -	\$ 600,238	\$ 12,043,033
Restricted cash and cash equivalents	693,412	2,219,301	112,506	3,025,219
Receivables (net of allowance for uncollectibles):				
Accounts	671,753	92,752	1,191,763	1,956,268
Taxes	51,487	4,581	-	56,068
Interest	1,489	717	22	2,228
Due from other governments	1,673,912	-	24,232	1,698,144
State and federal aid receivables	263,501	1,875,573	619,766	2,758,840
Prepaid expenses	118,200	12,000	214	130,414
Due from other funds	1,958,765	-	-	1,958,765
	<u>16,875,314</u>	<u>4,204,924</u>	<u>2,548,741</u>	<u>23,628,979</u>
Total Assets	\$ <u>16,875,314</u>	\$ <u>4,204,924</u>	\$ <u>2,548,741</u>	\$ <u>23,628,979</u>
LIABILITIES				
Accounts payable	\$ 1,576,517	\$ 363,624	\$ 58,490	\$ 1,998,631
Accrued liabilities	435,985	6,106	13,317	455,408
Retainage payable	-	137,930	-	137,930
Compensated absences	624,498	-	13,518	638,016
Other liabilities	7,707	-	6,914	14,621
Due to other funds	14,757	1,840,867	8,172	1,863,796
Due to other governments	43,636	2,063	601,879	647,578
Due to retirement system	433,090	-	10,550	443,640
Deferred revenue	102,054	84,817	1,222,986	1,409,857
	<u>3,238,244</u>	<u>2,435,407</u>	<u>1,935,826</u>	<u>7,609,477</u>
Total Liabilities	3,238,244	2,435,407	1,935,826	7,609,477
FUND BALANCES:				
Reserve for encumbrances	190,390	962,715	17,985	1,171,090
Reserve for capital projects	657,504	-	-	657,504
Reserve for economic development	-	-	279,865	279,865
Reserve for community development projects	-	-	79,085	79,085
Reserve for debt service	-	-	175,657	175,657
Reserve for worker's compensation	312,394	-	-	312,394
Reserve for insurance-general	696,249	-	-	696,249
Unreserved - designated for subsequent year's expenditures	1,265,000	-	45,271	1,310,271
Unreserved - undesignated	10,515,533	806,802	15,052	11,337,387
	<u>13,637,070</u>	<u>1,769,517</u>	<u>612,915</u>	<u>16,019,502</u>
Total Fund Balances	13,637,070	1,769,517	612,915	16,019,502
Total Liabilities and Fund Balances	\$ <u>16,875,314</u>	\$ <u>4,204,924</u>	\$ <u>2,548,741</u>	\$ <u>23,628,979</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total governmental fund balances	\$	16,019,502
---	-----------	-------------------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

The cost of capital assets is	\$ 127,130,091	
Accumulated depreciation is	<u>50,648,240</u>	76,481,851

Deferred assets for refunded bonds		37,944
------------------------------------	--	--------

Long term liabilities, including serial bonds and other long term debt, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ (22,960,609)	
Loan payable	(139,565)	
Accrued interest on bonds payable	(237,459)	
Compensated absences	(291,752)	
Workers compensation liability	(525,137)	
Landfill post-closure liability	(270,000)	
Accrued post-employment benefits	<u>(2,122,453)</u>	<u>(26,546,975)</u>

Net assets of governmental activities	\$	<u>65,992,322</u>
--	-----------	--------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 7,101,270	\$ -	\$ -	\$ 7,101,270
Real property tax items	2,528,544	-	-	2,528,544
Nonproperty taxes	15,464,169	-	-	15,464,169
Departmental income	4,022,744	-	-	4,022,744
Intergovernmental charges	163,224	-	-	163,224
Use of money and property	302,054	63,242	14,211	379,507
Licenses and permits	127,073	-	-	127,073
Fines and forfeitures	117,660	-	15,988	133,648
Sale of property and compensation for loss	322,899	2,430	-	325,329
Miscellaneous local sources	639,974	142,393	94,205	876,572
Interfund revenue	1,074,812	-	-	1,074,812
State sources	5,939,385	1,852,565	26,634	7,818,584
Federal sources	553,451	1,975,661	873,032	3,402,144
	<u>38,357,259</u>	<u>4,036,291</u>	<u>1,024,070</u>	<u>43,417,620</u>
Total Revenues	<u>38,357,259</u>	<u>4,036,291</u>	<u>1,024,070</u>	<u>43,417,620</u>
EXPENDITURES				
General government support	4,935,144	61,374	-	4,996,518
Public safety	13,510,962	64,392	-	13,575,354
Transportation	3,967,467	5,193,125	-	9,160,592
Economic assistance and opportunity	84,088	-	26,739	110,827
Culture and recreation	1,114,563	637,562	623,527	2,375,652
Home and community services	1,093,377	324,700	977,535	2,395,612
Employee benefits	6,222,736	-	281,653	6,504,389
Debt service	4,033,133	-	147,529	4,180,662
	<u>34,961,470</u>	<u>6,281,153</u>	<u>2,056,983</u>	<u>43,299,606</u>
Total Expenditures	<u>34,961,470</u>	<u>6,281,153</u>	<u>2,056,983</u>	<u>43,299,606</u>
Excess of (Expenditures) Revenue	3,395,789	(2,244,862)	(1,032,913)	118,014
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	239,520	583,952	918,880	1,742,352
Interfund transfers out	(1,483,832)	(215,692)	(45,996)	(1,745,520)
Serial Bonds	-	2,020,000	-	2,020,000
BANS redeemed from appropriations	-	224,300	-	224,300
	<u>(1,244,312)</u>	<u>2,612,560</u>	<u>872,884</u>	<u>2,241,132</u>
Total Other Financing Sources (Uses)	<u>(1,244,312)</u>	<u>2,612,560</u>	<u>872,884</u>	<u>2,241,132</u>
Net change in fund balances	2,151,477	367,698	(160,029)	2,359,146
Fund Balances - Beginning of year	11,420,112	1,467,300	772,944	13,660,356
Fund equity transfer	65,481	(65,481)	-	-
Fund Balances - End of year	<u>\$ 13,637,070</u>	<u>\$ 1,769,517</u>	<u>\$ 612,915</u>	<u>\$ 16,019,502</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds **\$ 2,359,146**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the period.

Capital outlays	\$	6,160,968	
Depreciation expense		3,910,484	2,250,484

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 2,754,882

Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Assets. (2,020,000)

Loss on disposal of assets (9,825)

Bond premiums/discounts and issuance costs associated with long-term bonds are recognized as expenditures and other financing sources/uses in the governmental funds at the time the debt is issued. However, those items are capitalized on the Statement of Net Assets and amortized over the life of the bonds on the Statement of Activities since they do not require the use of current financial resources.

Amortization of advanced refunding issuance costs (9,486)

Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities. 36,721

In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used. (2,008,774)

Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Assets. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities.

135,198

Change in Net Assets of governmental activities **\$ 3,488,346**

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

Business - Type Activities
Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 537,035	\$ 272,833	\$ 809,868
Accounts receivable, net of allowance for uncollectible accounts	909,673	694,226	1,603,899
Interest receivable	348	543	891
Due from governmental funds	10,580	26,172	36,752
Due from other governments	744	284,383	285,127
State and federal aid receivables	72,145	47,292	119,437
Prepaid expenses	558	566	1,124
Total current assets	<u>1,531,083</u>	<u>1,326,015</u>	<u>2,857,098</u>
Non-Current Assets			
Restricted cash and cash equivalents	541,403	1,347,216	1,888,619
Capital assets, net of accumulated depreciation	18,676,956	15,283,130	33,960,086
Total non-current assets	<u>19,218,359</u>	<u>16,630,346</u>	<u>35,848,705</u>
Total assets	<u>\$ 20,749,442</u>	<u>\$ 17,956,361</u>	<u>\$ 38,705,803</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 102,192	\$ 122,285	\$ 224,477
Accrued interest payable	59,809	50,971	110,780
Retainage payable	21,333	22,527	43,860
Accrued liabilities	39,727	31,423	71,150
Compensated absences	59,781	47,834	107,615
Due to retirement system	27,928	22,401	50,329
Due to governmental funds	57,008	69,005	126,013
Due to other governments	844	-	844
Current portion of long-term liabilities	902,992	504,628	1,407,620
Total current liabilities	<u>1,271,614</u>	<u>871,074</u>	<u>2,142,688</u>
Long-Term Liabilities:			
Workers compensation liability	6,013	86,909	92,922
Other post employment benefits liability	65,056	89,452	154,508
Serial bonds payable	4,443,522	4,162,596	8,606,118
Less: deferred amount on refunding	(31,126)	(2,930)	(34,056)
NYPA loan payable	-	3,838	3,838
Total long-term liabilities	<u>4,483,465</u>	<u>4,339,865</u>	<u>8,823,330</u>
Total liabilities	<u>5,755,079</u>	<u>5,210,939</u>	<u>10,966,018</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,733,147	11,880,865	25,614,012
Restricted for maintenance	118,074	-	118,074
Unrestricted	1,143,142	864,557	2,007,699
Total net assets	<u>14,994,363</u>	<u>12,745,422</u>	<u>27,739,785</u>
Total liabilities and net assets	<u>\$ 20,749,442</u>	<u>\$ 17,956,361</u>	<u>\$ 38,705,803</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 4,014,079	\$ 3,304,229	\$ 7,318,308
Intergovernmental charges	688,420	1,040,103	1,728,523
Other operating revenue	<u>17,354</u>	<u>19,762</u>	<u>37,116</u>
Total operating revenues	<u>4,719,853</u>	<u>4,364,094</u>	<u>9,083,947</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	2,017,705	1,616,113	3,633,818
Contractual services	1,320,642	1,576,583	2,897,225
Depreciation	650,523	752,935	1,403,458
Loss on disposal of fixed asset	<u>33,335</u>	<u>-</u>	<u>33,335</u>
Total operating expenses	<u>4,022,205</u>	<u>3,945,631</u>	<u>7,967,836</u>
Income from operations	<u>697,648</u>	<u>418,463</u>	<u>1,116,111</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 24,608	\$ 29,724	\$ 54,332
Interest expense	<u>(274,413)</u>	<u>(193,651)</u>	<u>(468,064)</u>
Total non-operating revenue (expenses)	<u>(249,805)</u>	<u>(163,927)</u>	<u>(413,732)</u>
Income (loss) before contributions and transfers	447,843	254,536	702,379
Capital contributions	232,223	46,738	278,961
Transfers in	-	10,668	10,668
Transfers out	<u>(7,500)</u>	<u>-</u>	<u>(7,500)</u>
Change in net assets	<u>672,566</u>	<u>311,942</u>	<u>984,508</u>
Net assets - beginning of year	<u>14,321,797</u>	<u>12,433,480</u>	<u>26,755,277</u>
Net assets - end of year	<u>\$ 14,994,363</u>	<u>\$ 12,745,422</u>	<u>\$ 27,739,785</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2009

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,702,333	\$ 4,083,235	\$ 8,785,568
Cash payments for contractual expense	(1,361,361)	(1,629,903)	(2,991,264)
Cash payments for personnel services and benefits	(1,954,398)	(1,529,023)	(3,483,421)
Other operating revenue	17,354	19,762	37,116
Net cash provided by operating activities	<u>1,403,928</u>	<u>944,071</u>	<u>2,347,999</u>
Cash flows from non-capital and financing activities			
Transfers to/from other funds	(7,500)	10,668	3,168
Cash flows from capital and related financing activities			
Proceeds of capital debt	382,000	818,000	1,200,000
Principal paid on capital debt	(1,616,387)	(952,767)	(2,569,154)
Interest paid on capital debt	(277,717)	(190,217)	(467,934)
Capital grants	159,334	46,738	206,072
Net cash (used) by capital and related financing activities	<u>(1,352,770)</u>	<u>(278,246)</u>	<u>(1,631,016)</u>
Cash flows from investing activities			
Purchase of capital assets	(914,524)	(700,218)	(1,614,742)
Interest income	24,260	29,181	53,441
Net cash (used) by investing activities	<u>(890,264)</u>	<u>(671,037)</u>	<u>(1,561,301)</u>
Net increase (decrease) in cash and cash equivalents	(846,606)	5,456	(841,150)
Cash and cash equivalents, beginning of year	<u>1,925,044</u>	<u>1,614,593</u>	<u>3,539,637</u>
	<u>\$ 1,078,438</u>	<u>\$ 1,620,049</u>	<u>\$ 2,698,487</u>
Reconciliation of income from operations to net			
Income from operations	\$ 697,648	\$ 418,463	\$ 1,116,111
Depreciation	650,523	752,935	1,403,458
Loss on disposal of fixed asset	33,335	-	33,335
Change in assets:			
Accounts receivable	(63,152)	(185,900)	(249,052)
Due from other governments	63,063	(71,800)	(8,737)
Due from other funds	(303)	(3,422)	(3,725)
Prepaid expenses	854	676	1,530
Change in liabilities:			
Accounts payable	(7,761)	47,914	40,153
Accrued liabilities	8,844	5,184	14,028
Compensated absences	(1,916)	117	(1,799)
Due to retirement system	3,586	3,125	6,711
Due to other governments	844	-	844
Other liabilities	(12,263)	(10,788)	(23,051)
OPEB liability	65,056	89,452	154,508
Due to other funds	(34,430)	(101,885)	(136,315)
Net cash provided by operating activities	<u>\$ 1,403,928</u>	<u>\$ 944,071</u>	<u>\$ 2,347,999</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 537,035	\$ 272,833	\$ 809,868
Non-current assets - restricted cash and cash equivalents	541,403	1,347,216	1,888,619
Total Cash and cash equivalents	<u>\$ 1,078,438</u>	<u>\$ 1,620,049</u>	<u>\$ 2,698,487</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	Private Purpose <u>Trusts</u>	Agency <u>Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 45,268	\$ 91,449	\$ 136,717
Due from Governmental Funds	-	746	746
	<u>\$ 45,268</u>	<u>92,195</u>	<u>\$ 137,463</u>
LIABILITIES			
Due to Governmental Funds	\$ -	\$ 6,454	\$ 6,454
Deposits held and due to others	-	63,419	63,419
Cafeteria plan	-	10,032	10,032
Other accrued liabilities	-	12,290	12,290
	<u>-</u>	<u>92,195</u>	<u>92,195</u>
Total Liabilities	<u>-</u>	<u>92,195</u>	<u>92,195</u>
NET ASSETS			
Held in trust for other purposes	15,942	-	15,942
Held in trust for scholarships	29,326	-	29,326
	<u>45,268</u>	<u>-</u>	<u>45,268</u>
Total Net Assets	<u>45,268</u>	<u>-</u>	<u>45,268</u>
Total Liabilities and Net Assets	<u>\$ 45,268</u>	<u>\$ 92,195</u>	<u>\$ 137,463</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	Private Purpose <u>Trusts</u>
ADDITIONS	
Interest revenue	\$ <u>836</u>
Total Additions	<u>836</u>
DEDUCTIONS	
Other	1,300
Scholarships awarded	<u>200</u>
Total Deductions	<u>1,500</u>
Change in Net Assets	(664)
Net Assets- Beginning of Year	<u>45,932</u>
Net Assets-End of Year	\$ <u><u>45,268</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

I. Summary of Significant Accounting Policies:

The financial statements of the City of Watertown, New York ("the City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The City of Watertown, New York (the "City") was incorporated in 1869. The Charter of the City of Watertown, City law and other general laws of the State of New York, govern the City. The City Council, which is the governing body of the City, consists of the Mayor and four Councilpersons. The City Manager serves as Chief Executive Officer of the City and is appointed by the Council. The City Comptroller serves as the Chief Fiscal Officer of the City and is appointed by the City Manager.

The City provides the following basic services: public safety (police and fire), water and sewer, library, recreation, refuse collection, economic assistance, street maintenance and snow removal and general administrative services.

The financial reporting entity consists of:

1. The primary government which is the City of Watertown
2. Organizations for which the primary government is financially accountable
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

Based on the foregoing criteria and the significant factors presented below, the following organization is included in the reporting entity:

Watertown Empire Zone

Portions of the City of Watertown were designated as an Economic Development Zone on July 27, 1994. The program is designed to attract new businesses to the area and to enable existing businesses to expand and create jobs by offering a variety of financial incentives and economic benefits. The City Council appoints a voting majority of the Program's governing body and significantly influences the activities of the Watertown Empire Zone Program.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provides additional guidance to determine whether certain organizations for which the City is not financially accountable should be reported as component units based on the nature and significance of their relationship with the City. The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Trustees of the Roswell P. Flower Memorial Library is included as a discretely presented component unit.

B. Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide statements and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks, library and recreation, public works, sports arena, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

1. Government-wide Statements

The government-wide statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of activities for the primary government (governmental and business-type). The focus of the government-wide statements addresses the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities reports both the gross and net cost for each of the City's functions or programs. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property tax, sales tax, intergovernmental revenues, interest income, etc.).

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The City records its transactions in the fund types described below:

a. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund – The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, risk based activities and central garage activities have been recorded in the General Fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted for specified purposes. The City maintains the following special revenue funds:

Special Grant Fund – to account for the use of Federal monies received under Community Development Act and any other economic development project.

Public Library Fund – to account for the operation of the Roswell P. Flower Memorial Library.

Debt Service Fund – to account for the accumulation of resources for and the payment of general long-term debt principal and interest for the mandatory reserve fund. See Note regarding electrical distribution agreement. The debt service fund also accumulates interest earned on borrowed money.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital expenditures.

b. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds – used to account for water and sewer operations.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Water Enterprise Fund – established by law to account for revenues derived from charges for water consumption and the application of such revenues toward related operating expenses and revenues derived from benefited assessments used for debt retirement.

Sewer Enterprise Fund – established by law to account for revenues derived from charges for sewer usage and benefited assessments, and the application of such revenues toward related operating expenses and debt retirement.

c. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose or agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e., expenditures or expenses.

1. **Accrual Basis** – The government-wide financial statements and the proprietary fund financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.
2. **Modified Accrual Basis** – The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. Expenditures are recorded when incurred except for prepaid expenditures and inventory items, which are recognized at the time of purchase; principal and interest on indebtedness, which are not recognized as expenditures until due; and compensated absences, such as vacation, which vests or accumulates and is charged as expenditures when paid.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

D. Property Taxes

Real property tax levies are fully accrued at the beginning of the fiscal year and are received and accounted for in the general fund. Accruals for "due other funds" are recorded in the general fund for the portion of the tax revenue allocated to other funds. The current year's property taxes are levied and the prior year's unpaid water and sewer bills are re-levied on a warrant to collect taxes due as of July 5 based on the assessed value of real property within the City. The City also levies and collects property taxes on behalf of Jefferson County, which become due as of January 15, and enforces collection of unpaid City school taxes transmitted by the school district to the City in December of each year.

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$1,105 and is included in "Due to other Governments". A portion of the receivable \$51,155 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$686,393 has been included in the General Fund accounts receivable balance at June 30, 2009.

E. Budget Policies

The budget policies are as follows:

1. Prior to April 30 of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted to obtain taxpayers' comments.
3. Prior to June 1, the budget is adopted by the City Council. Prior to June 30, the budget is legally enacted through City Council resolution.
4. City taxes included in the budget are levied on July 5. The collection period is July 5 through August 5.
5. The Comptroller is authorized to approve certain budget transfer requests within departments or within a fund; however, any revisions that alter total expenditures of any department or fund must be approved by the City Council.
6. For year-end financial reporting, adjustments are made to actual results to conform with modified budget classifications and reflect year-end encumbrances.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The general fund budget was amended from \$38,957,052 to \$38,802,422 to reflect receipt and disbursement of the following:

Prior year encumbrances	188,383
Re-adoption of General Fund Budget	(540,788)
Re-adoption of Tourism Fund Budget	82,000
Original general fund health insurance appropriations not included in Supplemental Schedule #1 due to the inclusion of the self-funded health insurance fund as part of general fund for reporting purposes were re-appropriated to non-health insurance line items and therefore increased the appropriations in comparison to the original budget	<u>115,775</u>
	<u>\$ (154,630)</u>

F. Cash and Cash Equivalents

Cash equivalents are defined as short-term investments with original maturities of three months or less.

G. Receivables

Receivables are stated net of the estimated allowance for uncollectible amounts. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federal programs. Other receivables represent amounts owed to the City, which include sewer rents, water rents, rehabilitation loans, and assessments.

H. Investments

Investments are stated at fair value.

I. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Water and sewer system	60-65 years
Machinery and equipment	5-30 years
Building improvements	5-25 years
Land improvements	20-50 years
Other infrastructure	10-50 years

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

J. Compensatory Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

Sick leave may be accumulated from year-to-year, up to 180 days. Upon retirement or other termination, no payment is made for accumulated sick time except for police, firemen and electrical workers who may receive a portion of their sick leave at retirement. The liability for sick leave is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. Vacation time vests and may be accumulated from year-to-year up to 10 days for management, police and electrical workers and 5 days for all other employees. The liability will be liquidated with expendable available financial resources; therefore, it is accounted for in the respective governmental fund type. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

K. Insurance and Risk Management

In accordance with New York State guidelines and GASB 10, "Accounting and Financial Reports for Risk Financing and Related Insurance Issues", the City self-insures for the following:

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$618,059 as of June 30, 2009 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.
- c. Unemployment Insurance – The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2009 were \$9,832.
- d. Health Care Benefits – On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$100,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$366,123 has been recorded in the self-insurance fund for claims incurred as of June 30, 2009 but not reported based upon historical experience.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

L. Fund Balance

Reserves and Designations

The City's fund balance reserves represent those portions of fund balance not available for appropriation or expenditure. Designations of unreserved fund balances in governmental funds indicate the use of these resources in the ensuing year's budget or tentative plans for future use.

II. Detailed Notes on All Funds

A. Assets

1. Cash and Investments - Concentration of Credit, Interest Rate and Foreign Currency Risks

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2009, the City limited its investments to demand and savings accounts and certificates of deposit.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. While the City does not have a specific policy for custodial credit risk, New York State statutes govern the City's investment policies, as discussed above.

The City does not typically purchase investments, other than stated above, and is not exposed to any material interest rate risk.

The City does not typically purchase investments denominated in foreign currency and is not exposed to foreign currency risk.

Collateral is required for demand and savings deposits and certificates of deposit for all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State, its municipalities and school districts, treasury strips and other obligations as outlined in the City's investment policy.

Separate bank accounts are not maintained for all City funds. Instead, the majority of the cash is deposited in pooled checking and savings accounts with accounting records maintained to show the portion of the balance attributable to each fund.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Deposits - Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as to custodial risk if they are not covered by depository insurance, and the deposits are either:

- a) Insured by Federal Deposit Insurance Corporation (FDIC) or by collateral held by the City or by the City's agent in the City's name; or
- b) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
- c) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at June 30, 2009 per the banks were \$17,905,170. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 2,467,298	\$ 15,437,872	\$ - 0 -

As of June 30, 2009 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit	\$ -
Certificates of Deposit-Trust & Agency Funds	25,939
State and Local Government Series Securities	<u>175,416</u>
Total	<u>\$ 201,355</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2009 follows:

Governmental Activities:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Non-depreciable capital assets:				
Land	\$ 2,952,170	\$ -	\$ -	\$ 2,952,170
Construction in Progress	<u>14,189,169</u>	<u>5,876,451</u>	<u>(18,977,672)</u>	<u>1,087,948</u>
Total	<u>\$ 17,141,339</u>	<u>\$ 5,876,451</u>	<u>(\$ 18,977,672)</u>	<u>\$ 4,040,118</u>
Depreciable capital assets:				
Land improvements	6,996,234	841,928	-	7,838,162
Buildings and improvements	30,372,055	74,744	-	30,446,799
Infrastructure	46,758,444	17,370,070	(30,627)	64,097,887
Machinery and equipment	10,207,086	610,463	(35,815)	10,781,734
Vehicles	<u>9,790,849</u>	<u>364,984</u>	<u>(230,442)</u>	<u>9,925,391</u>
Total	<u>104,124,668</u>	<u>19,262,189</u>	<u>(296,884)</u>	<u>123,089,973</u>
Less accumulated depreciation for:				
Land improvements	4,874,086	351,161	-	5,225,247
Buildings and improvements	9,203,294	691,049	-	9,894,343
Infrastructure	19,027,769	1,617,794	(25,691)	20,619,872
Machinery and equipment	6,982,434	578,685	(35,815)	7,525,304
Vehicles	<u>6,937,232</u>	<u>671,795</u>	<u>(225,553)</u>	<u>7,383,474</u>
Total	<u>47,024,815</u>	<u>3,910,484</u>	<u>(287,059)</u>	<u>50,648,240</u>
Depreciable capital assets, net:	<u>\$ 57,099,853</u>	<u>\$ 15,351,705</u>	<u>(\$ 9,825)</u>	<u>\$ 72,441,733</u>
Grand total	<u>\$ 74,241,192</u>	<u>\$ 21,228,156</u>	<u>(\$ 18,987,497)</u>	<u>\$ 76,481,851</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 150,901
Hydroelectric production	227,843
Police	146,948
Fire	419,825
Other public safety	9,424
Public Works	2,046,605
Bus	247,670
Library	136,136
Other culture and recreation	488,536
Refuse and recycling	36,596
Other home and community services	-
Total	<u>\$ 3,910,484</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Business-Type Activities:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	766,818	1,520,626	(2,049,191)	238,253
Total	<u>\$ 766,818</u>	<u>\$ 1,520,626</u>	<u>(\$2,049,191)</u>	<u>\$ 238,253</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,353,259	-	-	27,353,259
Infrastructure	18,787,090	1,765,981	(6,321)	20,546,750
Machinery and equipment	15,334,317	333,072	(100,004)	15,567,385
Vehicles	823,210	68,854	(64,667)	827,397
Total	<u>62,548,444</u>	<u>2,167,907</u>	<u>(\$170,992)</u>	<u>64,545,359</u>
Less accumulated depreciation for:				
Land improvements	218,164	12,528	\$ -	230,692
Buildings and improvements	12,329,417	540,402	-	12,869,819
Infrastructure	4,584,769	290,559	(6,321)	4,869,007
Machinery and equipment	11,727,740	527,125	(66,669)	12,188,196
Vehicles	697,635	32,844	(64,667)	665,812
Total	<u>29,557,725</u>	<u>1,403,458</u>	<u>(\$137,657)</u>	<u>30,823,526</u>
Depreciable capital assets, net:	<u>\$32,990,719</u>	<u>\$ 764,449</u>	<u>(\$ 33,335)</u>	<u>\$33,721,833</u>
Grand total	<u>\$33,757,537</u>	<u>\$ 2,285,075</u>	<u>(\$ 2,082,526)</u>	<u>\$33,960,086</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 650,523
Sewer	752,935
Total	<u>\$1,403,458</u>

2. Restricted Cash, Cash Equivalents and Investments

Restricted assets consist of cash, cash equivalents and investments for the following funds:

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 66,407	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 591,375	Reserve for capital projects
General – Cash	\$ 35,630	Reserve for special assessment sidewalk program debt
Water – Cash	\$ 118,036	Reserve for coagulation basin maintenance
Special Revenue – Cash	\$ 112,506	Federal and State community development grants
Capital – Cash	\$ 2,219,301	Reserve for capital project acquisitions and construction

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Water – Cash	\$ 423,367	Reserve for capital project acquisitions and construction
Sewer – Cash	\$ 1,347,216	Reserve for capital project acquisitions and construction

4. Notes Receivable

To assist in the rehabilitation of homes of low and moderate-income persons in the City, the City was awarded various grants for its "Housing Improvement Program". The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Under the grant terms, eligible homeowners receive a grant and/or loan not to exceed \$20,000 using Community Redevelopment Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the total loans outstanding at June 30, 2009 was \$12,497. The balance of the grants subject to repayment at June 30, 2009 was \$776,709.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a new City-wide home ownership program that combines CDBG and North Country HOME Consortium funds to allow Neighbors of Watertown to purchase existing homes and rehabilitate those properties before selling them to qualified low or moderate income buyers who have completed a home ownership counseling program and secured appropriate bank mortgage financing. Under the grant terms, eligible homebuyers receive a loan not to exceed \$20,000 to be repaid to the City at zero percent interest in monthly installments over twenty years. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Loans in the amount of \$80,000 were awarded during the current year. The balance of these loans outstanding at June 30, 2009 was \$320,139.

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for rehab to an apartment building. This loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. The balance of this loan at June 30, 2009 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

The City was awarded a North Country HOME Consortium Fiscal Year 2006 and 2007 grant in the amount of \$230,000 to assist approximately twelve income eligible homeowners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$65,921 were awarded during the current year.

The City was awarded \$650,000 through a Fiscal Year 2007 Small Cities Community Development Block Grant to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include commercial tenants on the ground floor and rental apartments that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2009 were \$4,986.

The City was also awarded an additional \$1,550,000 for the Franklin Building renovation and related soft costs through the 2006-07 New York State Empire State Development's RESTORE NY Communities grant program. Grant expenditures for the fiscal year ending June 30, 2009 were \$ 0.

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a new City-wide rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments throughout the City. Under the grant terms, eligible property owners would receive CDBG financing of eligible improvements up to a maximum of \$20,000. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid over 5 years in monthly installments at a rate of \$18 per \$1,000. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. No grants or loans were awarded during the current year.

The City was awarded a North Country HOME Consortium Fiscal Year 2008 grant in the amount of \$230,000 to assist approximately eleven income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Deferred payment loans will be available to help pay the cost of eligible improvements up to a maximum of \$20,000 for each housing unit. The grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Grants of \$138,346 were awarded during the current year.

The City was awarded \$1,006,147 from the 2007-08 New York State Empire State Development's RESTORE NY Communities grant program to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include the renovation of an abandoned industrial building to be known as Riverview Plaza into commercial and residential use that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2009 were \$ 601,879.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

B. Liabilities

1. Short-Term Debt

A summary of bond anticipation note transactions for the year ended June 30, 2009 is as follows:

Balance at July 1, 2008	\$ 4,165,000
Additions	-
Reductions	<u>(4,165,000)</u>
Balance at June 30, 2009	<u>\$ -</u>

The City issued a bond anticipation note on February 25, 2008 with a maturity date of February 25, 2009 to finance various projects. The interest rate was 2.00% with a premium of \$28,500 resulting in a net interest cost of 1.32%. The bond anticipation note was backed by the full faith and credit of the City of Watertown. On February 11, 2009 the City of Watertown issued \$3,220,000 of General Obligation Bonds to retire the bond anticipation note and finance additional capital projects.

2. Long-Term Debt

During the year ended June 30, 2009, the following changes occurred in long-term obligations:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds	\$23,650,231	2,020,000	(\$2,709,622)	\$22,960,609	\$2,811,527
Compensated Absences	405,431	-	(113,679)	291,752	30,000
Landfill Monitoring	288,000	-	(18,000)	270,000	18,000
NYPA Loan Payable	184,825	-	(45,260)	139,565	46,973
Total	<u>\$24,528,487</u>	<u>\$2,020,000</u>	<u>(\$2,886,561)</u>	<u>\$23,661,926</u>	<u>\$2,906,500</u>

The Statement of Net Assets at June 30, 2009 includes a deferred amount of \$37,944 on the advance refunding of bonds in fiscal year ended June 30, 2003.

Business-type Activities

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation Bonds:					
Water	\$ 6,071,701	\$ 382,000	(\$1,107,187)	\$ 5,346,514	\$ 902,992
Sewer	4,281,668	818,000	(434,391)	4,665,277	502,681
NYPA Loan Payable	7,661	-	(1,876)	5,785	1,947
Total	<u>\$10,361,030</u>	<u>\$ 1,200,000</u>	<u>(\$1,543,454)</u>	<u>\$ 10,017,576</u>	<u>\$ 1,407,620</u>

The Statement of Net Assets at June 30, 2009 includes a deferred amount of \$34,056 on the advance refunding of bonds in fiscal year ended June 30, 2003.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2009 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid 6/30/09</u>	<u>Outstanding 6/30/09</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 550,000	12/2017
Water Filtration	7.40-7.60%	4,100,000	225,000	-	4/2009
Public Improvements	6.90-7.00%	5,471,000	75,000	75,000	5/2010
Public Improvements	6.30-6.375%	10,518,000	395,200	1,190,400	10/2011
Public Improvements	5.50-5.70%	3,599,000	175,000	500,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	41,000	92,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	100,000	200,000	7/2011
Public Improvements	4.60-5.25%	4,220,000	125,000	30,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	260,000	7,335,000	11/2025
Public Improvements	3.50-4.85%	3,908,466	300,000	360,000	3/2013
Public Improvements	5.125-5.50%	6,105,000	315,000	1,350,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	120,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	150,000	910,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	210,000	515,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	625,000	5,250,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	4,500,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	175,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000	745,000	6,600,000	02/2023
Public Improvements	2.50-3.25%	\$3,220,000	-----	<u>3,220,000</u>	09/2018
Total Serial Bonds			<u>\$4,251,200</u>	<u>\$32,972,400</u>	

On February 11, 2009 the City of Watertown issued \$3,220,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 2.50% to 3.25%. The net interest cost over the life of the bond is 2.81%.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,811,527	\$1,074,683	\$ 3,886,210
2011	2,389,187	950,853	3,340,040
2012	2,207,957	851,775	3,059,732
2013	1,801,202	760,721	2,561,923
2014	1,655,702	679,880	2,335,582
2015-2019	7,075,034	2,348,478	9,423,512
2020-2024	3,715,000	968,253	4,683,253
2025-2026	<u>1,305,000</u>	<u>85,793</u>	<u>1,390,793</u>
	<u>\$22,960,609</u>	<u>\$ 7,720,436</u>	<u>\$30,681,045</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Business-type Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,405,673	\$ 401,709	\$ 1,807,382
2011	1,276,013	333,138	1,609,151
2012	1,197,043	276,286	1,473,329
2013	733,798	233,905	967,703
2014	724,298	205,606	929,904
2015-2019	3,419,966	612,763	4,032,729
2020-2024	1,255,000	99,056	1,354,056
2025-2026	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,011,791</u>	<u>\$2,162,463</u>	<u>\$12,174,254</u>

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2009 was \$ 173,230.

Advance Refunding

On March 15, 1998, the City issued \$3,908,466 in Environmental Improvement Refunding Bonds with interest rates ranging from 3.5% to 4.85% to advance refund \$3,608,700 of outstanding 1991, 1992 and 1996 series bonds with interest rates ranging from 4.60% to 6.37%.

Also, on March 15, 1998, the City issued \$2,525,000 in Environmental Improvement Refunding Bonds with interest rates ranging from 3.55% to 4.55% to advance refund \$2,350,000 of outstanding 1998 series bonds with interest rates ranging from 7.50% to 7.70%. These bonds were called on May 1, 1998.

For both issuances, the City used net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds, and accordingly, these securities are not included in the balance sheet.

These advance refundings reduced total debt service payments over fourteen years by \$1,148,000. The refunding bonds were issued through the New York State Environmental Facilities Corporation Clean Water and Drinking Water Revolving Funds Revenue Bonds (Pooled Loan Issue) Series 1998 A and B.

On August 27, 2002, the City issued \$2,155,000 in general obligation bonds with an average interest rate of 3.42% to advance refund \$1,975,000 of outstanding 1992 Serial bonds with an average interest rate of 6.009%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 series bonds.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

A difference in cash flow requirements of \$125,248 and a net present value savings of \$109,404 were a result of this advance refunding by the City.

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 1.92 to 3.76%. The outstanding balance at June 30, 2009 is \$145,350. The estimated maturities over the next five years and thereafter are as follows:

2010	\$ 48,920
2011	49,868
2012	<u>46,562</u>
	<u>\$145,350</u>

3. Prior Years Defeasance of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for defeased bonds are not included in the City's financial statements. On June 30, 2009, \$237,600 of bonds outstanding is considered defeased.

4. Deferred Revenue

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue and prepaid interest installments on special assessments	<u>\$ 102,054</u>
---	-------------------

Special Revenue Fund

Notes receivable funded from grant proceeds	<u>\$ 1,222,986</u>
---	---------------------

Capital Projects Fund

Deferred State Aid and other miscellaneous sources	<u>\$ 84,817</u>
--	------------------

5. Retirement Benefits

Plan Description

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employers. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

administration and transaction of the business of the systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2009 and two preceding years were:

	FYE 6/30/09	FYE 6/30/08	FYE 6/30/07
Employer Contributions			
ERS	\$ 635,943	\$ 737,283	\$ 762,350
PFRS	\$ 1,365,509	\$ 1,094,456	\$ 1,133,628
Employee Contributions			
ERS	\$ 80,686	\$ 71,249	\$ 62,311
PFRS	\$ -	\$ -	\$ -

The City's contributions made to the Systems were equal to 100 percent of the contributions required for each year. Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The reports may be obtained by writing to:

New York State and Local Employees' Retirement System
110 State Street
Albany, New York 12244
Bonus Retirement Plan

Under the terms of the police and fire union contracts, the City also made available a bonus retirement plan to all eligible employees. To be eligible, the employee must have accumulated 20 years of service within the retirement system and must retire within 3 years from that date. The following is a schedule of the benefits paid based upon the retirement date:

1 st year	\$5,000
2 nd year	\$4,000
3 rd year	\$3,000

The City has reported \$21,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. Post Employment Benefits

During the year ended June 30, 2009 the City adopted Governmental Standards Board Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions"*, on a prospective basis. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenses/expenditures and related OPEB assets and liabilities, note disclosures, and required supplementary information. The objective of this statement is to improve the faithfulness of representations and usefulness of information included in the financial reports of state and local governments regarding OPEB.

Plan Description

The City administers its Health Plan (the plan) as a single-employer, self-insured benefit plan. The City provides postemployment healthcare benefits to certain employees that must be eligible to retire under the New York State Retirement Systems. The plan provides medical and prescription drug coverage to certain retirees and their dependents based upon the City's collective bargaining agreements with its various unions. The financial information for the City's plan is contained solely within these basic financial statements.

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and the retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2009 the City contributed approximately \$6,614,140 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$543,194.

Annual OPEB Cost and Net Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and the amortized amount of any unfunded actuarially accrued liabilities (UAAL) over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

	Governmental Activities	Business- type Activities - Water Fund	Business- type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 4,895,831	\$ 282,879	\$ 332,959	\$ 5,511,669
Interest on net OPEB obligation	\$ -	\$ -	\$ -	\$ -
Adjustment to ARC	\$ -	\$ -	\$ -	\$ -
Annual OPEB cost	\$ 4,895,831	\$ 282,879	\$ 332,959	\$ 5,511,669
Contributions Made	\$ (2,773,378)	\$ (217,823)	\$ (243,507)	\$ (3,234,708)
Change in net OPEB obligation	\$ 2,122,453	\$ 65,056	\$ 89,452	\$ 2,276,961
Net OPEB obligation - beginning of year *	\$ -	\$ -	\$ -	\$ -
Net OPEB obligation - end of year	<u>\$ 2,122,453</u>	<u>\$ 65,056</u>	<u>\$ 89,452</u>	<u>\$ 2,276,961</u>

* Not actuarially determined

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year was as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental Activities	\$ 4,895,831	56.65%	\$ 2,122,453
Business-type Activities - Water Fund	\$ 282,879	77.00%	\$ 65,056
Business-type Activities - Sewer Fund	\$ 332,959	73.13%	\$ 89,452

Funded Status and Funding Progress

As of September 1, 2008, the most recent actuarial valuation date, the City's actuarial accrued liability for benefits was \$106,599,921 and there were no plan assets. The covered payroll (annual payroll of active employees covered by the plan) was \$15,321,802 and the ratio of unfunded actuarial accrued liability to covered payroll was 695.74%.

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information on the actuarial value of the plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a) / (c)
Sept. 1, 2008	\$ -	\$106,599,921	\$106,599,921	0.00%	\$15,321,802	695.74%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on an open basis. The actuarial assumptions include 5.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was 6.9% for the current fiscal year and increasing to 9.5% for the following year and then decreasing 0.5% per fiscal year until the fiscal year ending June 30, 2019 and beyond where it was kept at 5.0%.

C. Fund Balances

1. Reserved Fund Balances

Reserved fund balances consist of the following:

General Fund

- Encumbrances – An amount reserved to satisfy purchase orders and other commitments for which goods and/or services will be received in the following year
- Insurance – An amount reserved to pay claims and judgments for the City's general liability and the cost of providing health care benefits to eligible employees and retirees
- Workers Compensation – An amount reserved to pay workers' compensation claims
- Capital Reserve – Pursuant to Section 6-c of the General Municipal Law of the State of New York the City established a capital reserve fund to finance future capital improvement projects.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Other Governmental Funds

- Mandatory Reserve for Indebtedness – Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2009 was \$175,657.

2. Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2009.

3. Excess of Expenditures over Appropriations

No funds' expenditures for the fiscal year ended June 30, 2009 exceeded appropriations.

D. Interfund Transactions

Operating Transfers

During the course of normal operations, the City records numerous transactions between funds including expenditures for services as well as transfers to finance various projects and debt payments.

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2009 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$1,957,294	\$ 14,757
Community Development Fund	-	3,382
Water Fund	10,580	57,008
Sewer Fund	26,172	69,005
Library Fund	-	4,790
Capital Project Funds	-	1,840,867
Self-Funded Health Insurance	1,471	-
Trust and Agency	746	6,454
	<u>\$ 1,996,263</u>	<u>\$1,996,2633</u>

Inter-fund Eliminations

For financial statement purposes the following inter-fund balances have been eliminated:

	<u>General Fund</u>	<u>Self-fundedHealth Insurance Fund</u>
Revenues	\$ -	\$5,638,431
Expenditures	<u>5,638,431</u>	-
Total	<u>\$5,638,431</u>	<u>\$5,638,431</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

E. Operating Leases

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusho and Terry MacAdam. The term of the lease is for a ten-year period from October 22, 2001 through October 21, 2011. The annual rent is \$1,900.

Minimum future rentals to be paid over the term of the lease:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 1,900
2011	<u>1,900</u>
	<u>\$3,800</u>

Fairgrounds Property Lease

The City was the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC which subsequently assigned the lease to Watertown Savings Bank. The lease dated July 28, 1998 was for a term of twenty-five years. The lease was amended on June 16, 2003. Watertown Savings Bank began leasing the building in 2006 to the Watertown Family YMCA. After being granted New York State Legislative approval the City is now the lessor of the portion of the Fairgrounds property to the Watertown Family YMCA which has purchased the building from Watertown Savings Bank. The lease dated July 9, 2009 is for a term of twenty-five years with an option to renew by Watertown Family YMCA for an additional fifteen years if such renewal is approved by the New York State Legislature. Total rental expenses for the fiscal year ending June 30, 2009 were \$7,500.

Minimum future rentals on the lease in the aggregate and for each of the next five years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 24,000
2011	24,000
2012	24,000
2013	24,000
2014	24,900
Thereafter	<u>564,107</u>
	<u>\$685,007</u>

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2009 were \$685,117.

Estimated minimum future rental payments under the non-cancelable operating lease for each of the next five years and in the aggregate are:

2010	\$ 207,369
2011	197,405
2012	187,443
2013	177,481
2014	167,518
Thereafter	<u>157,555</u>
Total	<u>\$1,094,771</u>

Equipment Lease

The City is the lessor of certain office equipment. The lease dated September 30, 2008 is for a term of five years. Minimum future rentals on the lease in the aggregate and for each of the next five years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 2,596
2011	2,596
2012	2,596
2013	2,596
2014	<u>433</u>
	<u>\$10,817</u>

III. Commitments and Contingencies:

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrests, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2009, the financial impact of these claims, if any, cannot be determined. Accordingly, the general-purpose financial statements have not been adjusted to reflect the potential result of these claims. However, the City has accumulated a reserve of \$696,249 as of June 30, 2009 for un-funded general liability claims.

Grant Programs

The City participates in a number of Federal and State grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The City believes, based upon its review of current activity and prior experience, the amount of disallowances resulting from these audits, if any, will not be significant to the City's financial position or results of operations.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Environmental Concerns

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2009, the City is not aware of any significant environmental problems related to these normal City operations that should be disclosed in the general-purpose financial statements.

On April 27, 2007 the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006 the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$561,200 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has entered into a professional services contract for \$ 618,000 of which \$380,136 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2009 the City is not expected to have any liability for this potential environmental clean-up due to the "safe harbor" provisions of the ERP grant.

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2009, an estimated \$270,000 in post-closure care cost will be incurred over the remaining 16-year period. This liability is recorded in the long-term debt account group and is amortized in the General Fund at approximately \$18,000 each year.

The current landfill-monitoring contract expired in 2000. The estimated total liability was computed assuming future contracts monitoring costs would be comparable.

Black River Fund

The City of Watertown owns a hydroelectric facility on the Black River and has applied to the Federal Energy Regulatory Agency (FERC) for a new hydro-electric generation license. On November 21, 1994, the City Council approved an agreement between the City and New York Rivers United, an environmental group, for the establishment of a Black River Fund.

This Fund is established in consideration of the immitigable impacts of the Watertown Project, and for the purpose of financing projects and facilities that enhance the natural resources and human values of the Black River within the City's boundaries. This Fund will be used to finance projects and facilities which conserve and enhance the fish, plant, and wildlife resources of the Black River, improve water quality, educate the public about the river and its uses and provide for recreation.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

This Fund is being administered by a Black River Fund Committee, which shall determine the distribution of funding each year. If able to demonstrate that their proposal provides a clear public benefit, governmental agencies, non-profit organizations, education institutions, and individuals shall be eligible to receive funding from the Black River Fund. On December 16, 2006 the Committee allocated \$20,000 to New York Rivers United to document the river's ecology in terms of quality, water quantity, general biodiversity and ecological status since the passage of the 1977 Federal Clean Water Act. The Committee also allocated \$80,000 to the City for its Hole Brothers Access Improvement Project. The award is funded with \$60,000 of current funds and \$10,000 from each of the 2008 and 2009 City contributions to the fund. As of June 30, 2009, all \$80,000 has been distributed from the Black River Fund to the City for its Hole Brothers Access Improvement Project.

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2009 was \$7,346.

Additionally, the City agreed to establish a replacement reserve to accumulate funds towards the anticipated cost of repairing, replacing, or retiring of energy generation equipment at the facility.

On June 16, 1995, the FERC issued a new license to the City for the continued operation, maintenance and expansion of the City's existing hydro plant.

Electrical Distribution System Agreement

The City approved a sale of its Electrical Distribution System in March 1991. In connection with the sale, the parties agreed to the following:

- Niagara Mohawk was to operate the existing municipal hydro plant at no cost to the City beginning January 1, 1991 and extending until removal of the plant from service for reconstruction.
- The City would proceed in the process of undertaking re-licensing of the hydro plant in accordance with the Federal Energy Regulatory Commission (FERC) rules and regulations, and would undertake the refurbishing of the plant.
- The City will lease all of its surplus power to Niagara Mohawk for a term not exceeding forty years.

The City commenced reconstruction of the hydroelectric plant on June 2, 1997. The project, which cost \$9,075,000, was completed in January 2000.

Watertown International Airport / Jefferson County Sales Tax Agreement

On May 3, 2004, the City agreed to a revised sales tax distribution with Jefferson County. Effective on September 1, 2004, Jefferson County increased the county's sales tax from 3.00% to 3.75%. Under the prior agreement the City received 28% of the County sales tax collections. The City agreed to forego receiving distributions on the additional revenue for the first five quarters that the new tax rate is in effect thus reducing its overall collection percentage of total sales tax collections to 22.4%. During the first five quarters, Jefferson County will retain all funds collected

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

in excess of the original 3.00%. After the first five quarters, the City's overall collection percentage increases to 23.0% effective on 12/1/05, to 23.5% effective 12/1/06 and to 24.0% effective 12/1/07.

As part of the sales tax agreement, Jefferson County has agreed to take over the ownership of the Watertown International Airport, including all operating expenses and outstanding debt. The City/County transfer agreement was approved by the Federal Aviation Authority and New York State Department of Transportation. The transfer took place during 2006. Assets net of associated debt amounting to \$5,088,452 were transferred to the County on March 1, 2006.

On May 1, 2007 the Jefferson County Board of Legislators agreed to eliminate the 2% tax on residential energy sources and services effective September 1, 2007 and to absorb the full cost of providing emergency dispatch services to the City over a two year period beginning with a 50% reduction in charges in 2008 and a full reduction in 2009 and thereafter. The County agreed to these changes to gain the bipartisan support for the introduction of a bill in the State Legislature that extended the County's authorization to impose the additional three quarters of one percent (3/4%) rate of sales tax through November 30, 2009.

Sewer Agreement Between The Development Authority of the North Country and the City

By resolution adopted July 6, 2009, the City Council approved two twenty-year agreements retroactive to April 1, 2009 between the City and the Development Authority of the North Country to provide sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City's Water Pollution Control Plant. The Development Authority of the North Country and United States Army executed an agreement on June 13, 1986 requiring sewage to be delivered for treatment at the Watertown Water Pollution Control Plant by April 1, 1987.

Gross Receipts Tax Refund Request from National Grid

On December 26, 2008 National Grid has requested a gross receipts tax refund of the in the amount of \$184,430 for the time frame covering December 25, 2005 through September 30, 2008 on the basis that it erroneously included revenues from electric transmission and distribution service and gas transportation service which did not originate within the boundaries of the City. National Grid is seeking similar refunds from approximately 150 New York communities.

On behalf of the affected communities the New York Conference of Mayors (NYCOM) requested and received an Advisory Opinion of the New York State Department of Taxation and Finance that supports NYCOM's position on the applicability of the local gross receipts tax to unbundled sales of energy commodities. Accordingly, National Grid has been requested to abandon their attempts to collect a refund, immediately begin collecting the gross receipts tax in accordance with the Advisory Opinion and remit a supplemental payment to the affected municipalities on their gross receipt tax underpayments since November 2008. National Grid has applied to the NYS Public Service Commission for a tariff revision to allow them to begin collecting the gross receipts tax in accordance with the Advisory Opinion.

The City has not accrued any additional revenues for the fiscal year ending June 30, 2009 related to the underpayments as it is unclear if National Grid will apply the ruling retroactively nor did the City record the initial refund request in the financial statements as a liability.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Resources (Inflows)				
Real property taxes	\$ 6,988,172	\$ 6,988,172	\$ 7,101,270	\$ 113,098
Real property tax items	2,526,445	2,526,445	2,528,544	2,099
Non-property taxes	16,710,000	15,208,138	15,464,169	256,031
Departmental income	4,053,500	4,253,500	4,022,744	(230,756)
Intergovernmental charges	94,500	94,500	163,224	68,724
Use of money and property	276,900	276,900	302,054	25,154
Licenses and permits	65,200	65,200	127,073	61,873
Fines and forfeitures	90,000	90,000	117,660	27,660
Sale of property and compensation for loss	46,600	46,600	322,899	276,299
Miscellaneous local sources	580,970	580,970	639,974	59,004
Interfund revenue	718,176	833,951	1,074,812	240,861
State source	5,956,189	5,881,189	5,939,385	58,196
Federal sources	713,400	713,400	553,451	(159,949)
Transfers from other funds	31,500	181,500	239,520	58,020
	<u>38,851,552</u>	<u>37,740,465</u>	<u>38,596,779</u>	<u>856,314</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,599,714	5,292,250	4,935,144	357,106
Public safety	13,983,326	13,986,629	13,510,962	475,667
Transportation	4,138,994	4,224,243	3,967,467	256,776
Economic assistance and development	114,500	111,200	84,088	27,112
Culture and recreation	1,217,544	1,234,811	1,114,563	120,248
Home and community services	1,384,236	1,391,701	1,093,377	298,324
Employee benefits	6,808,000	6,857,600	6,222,736	634,864
Debt service	4,218,358	4,218,608	4,033,133	185,475
Transfers to other funds	1,492,380	1,485,380	1,483,832	1,548
	<u>38,957,052</u>	<u>38,802,422</u>	<u>36,445,302</u>	<u>2,357,120</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations	(105,500)	(1,061,957)	2,151,477	3,213,434
Appropriation of prior year fund balance	<u>145,000</u>	<u>831,074</u>	<u>-</u>	<u>(831,074)</u>
Excess / (Deficiency) of Resources Over Charge to Appropriations	<u>\$ 39,500</u>	<u>\$ (230,883)</u>	2,151,477	<u>\$ 2,382,360</u>
Fund Balance, Beginning of year			11,420,112	
Fund equity transfer			65,481	
Fund Balance, End of year			<u>\$ 13,637,070</u>	

See Paragraph on Supplemental Schedules Included in Auditor's Report.

SUPPLEMENTAL SCHEDULE #2

CITY OF WATERTOWN, NEW YORK

=====

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/Small Cities	14.219	\$ 106,853
Community Development Block Grant/State's Loan	14.228	33,313
HOME Investment Partnerships Program	14.239	<u>238,872</u>
Total Department of Housing & Urban Development		<u>379,038</u>
US Department of Transportation:		
Passed Through New York State:		
Highway Planning and Construction	20.205	2,027,776
State and Community Highway Safety	20.600	7,341
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>192,486</u>
Total Department of Transportation		<u>2,227,603</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>194,580</u>
US Environmental Protection Agency:		
Brownfield Pilots Cooperative Agreements	66.811	<u>192,635</u>
		<u>\$ 2,993,856</u>

See Paragraph on Supplemental Schedules Included in Auditor's Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF WATERTOWN, NEW YORK
=====

NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

1. Summary of certain significant accounting policies:

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the City, which is described in Note 1 to the City's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Matching costs (the City's share of certain program costs) are not included in the reported expenditures.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable programs and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the City's financial reporting system.

2. Community Development Block grant loans:

Loan activity for the Community Development Block grant loans is as follows:

CFDA #	Balance at 7/1/08	Issuance	Forgiveness	Balance at 6/30/09
14.228	\$831,622	\$ 201,600	\$ 245,575	\$ 787,647

3. Subrecipients:

No amounts were provided to subrecipients.

SUPPLEMENTAL SCHEDULE #3

CITY OF WATERTOWN, NEW YORK

=====
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR "THE PLAN"

FOR THE YEAR ENDED JUNE 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/08	\$ -	\$ 106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%

See Paragraph on Supplemental Schedules Included in Auditor's Report.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Senior Management, Mayor and
Members of the City Council of
the City of Watertown, New York

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York, as of and for the year ended June 30, 2009, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated January 28, 2010. We did not audit the financial statements of the Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Watertown, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Watertown, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Watertown, New York's financial statements that is more than inconsequential will not be prevented or detected by the City of Watertown, New York's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Watertown, New York's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of City of Watertown, New York, in a separate letter dated January 28, 2010.

This report is intended solely for the information and use of the Mayor and Members of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Senior Management, Mayor and
Members of the City Council of
the City of Watertown, New York

COMPLIANCE

We have audited the compliance of the City of Watertown, New York with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

In our opinion, the City of Watertown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor and Members of the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 1010

CITY OF WATERTOWN, NEW YORK
=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in this Schedule in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major federal program included – Highway Planning and Construction Cluster- Highway Planning and Construction – CFDA #20.205.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The City of Watertown, New York qualified as a low-risk auditee.

Section II – Financial Statement Audit Findings:

There were no findings to report.

Section III – Major Federal Award Programs Findings and Questioned Costs:

There were no findings to report.

CITY OF WATERTOWN, NEW YORK
=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Summary Schedule of Prior Audit Findings:

FINDING 2008-1: Uncollateralized Deposits

Condition: Certificates of deposits from HSBC that matured were transferred to Key Bank on 6/30/08, causing deposits to exceed the collateral pledged on that date at Key Bank. Deposits on June 30, 2008 were uncollateralized by \$7,886,850. We noted management contacted Key Bank requesting adequate collateral for June 30, 2008 and the bank responded that additional securities were pledged as of July 1, 2008 in accordance with the Depository Collateral Agreement. We noted that eligible securities were pledged by Key Bank on 7/1/08.

Recommendation: We recommend that procedures be reviewed to ensure that deposits are collateralized at all times during the year.

Current Status: The recommendation was followed in 2008-2009. No similar findings were noted in the 2009 report.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

**REPORT ON COMPLIANCE AND CONTROLS
OVER STATE TRANSPORTATION ASSISTANCE
EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDIT STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Senior Management, Mayor and
Members of the City Council of
the City of Watertown, New York

Compliance

We have audited the compliance of City of Watertown, New York, with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended June 30, 2009. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with accounting standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above, that could have a direct and material effect on the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

In our opinion, City of Watertown, New York complied in all material respects with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs tested. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state transportation assistance program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state transportation assistance program tested that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state transportation assistance program tested will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of City of Watertown, New York as of and for the year ended June 30, 2009, and have issued our report thereon dated January 28, 2010. Our audit was performed for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City of Watertown, New York's Mayor and Members of the City Council, management and the New York State Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

CITY OF WATERTOWN, NEW YORK

=====

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

Program Title	Ref. Number	Expenditures
Marchicelli - State St. Project	D017149	\$ 87,740
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	682,550
Formula Grants for Other Than Urbanized Areas - DPW Maintenance Facility	C003695	4,624
Formula Grants for Other Than Urbanized Areas - BUS-Federal Section 5311	C003759	<u>5,837</u>
TOTAL		<u>\$ 780,751</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

CITY OF WATERTOWN, NEW YORK

=====

NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

NOTES

A. General:

The above Schedule of State Transportation Assistance Expended of the City of Watertown, New York, presents the activity of all major financial assistance programs provided by the New York State Department of Transportation.

B. Basis of Accounting:

The above Schedule of State Transportation Expended is presented using the accrual basis of accounting.

CITY OF WATERTOWN, NEW YORK
=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

Summary of Audit Results:

Internal control over state transportation assistance expended:

Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)	None reported

Type of auditor's report issued on compliance for Program tested:	Unqualified
---	-------------

Summary of Audit Findings:	N/A
----------------------------	-----

Identification of State Transportation Assistance Programs tested:	Consolidated Local Street & Highway Improvement Program Capital Reimbursement- CHIPS Contract #732059
--	---

Compliance Findings and Questioned Costs:

No matters were reported
